

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants
Willmar, Minnesota

INDEPENDENT SCHOOL DISTRICT #347
YEAR ENDED JUNE 30, 2008
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INDEPENDENT SCHOOL DISTRICT #347
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2008

<u>Board of Education</u>		<u>Term Expires</u>
Chairperson	Mike Carlson	12/31/2010
Vice-Chairperson	Brad Schmidt	12/31/2010
Clerk	Eric Roberts	12/31/2008
Treasurer	Wayne "Lenny" Lenzmeier	12/31/2008
Director	Shawn Mueske	12/31/2008
Director	Sandi Unger	12/31/2008
Director	Dion Warne	12/31/2010
<u>Administration</u>		
Superintendent	Kathryn Leedom *	
Director of Business & Finance	Pam Harrington	
Director of Human Resources	Bill Busta	

* - Retired July 31, 2008 and has been replaced with Dr. Jerry Kjergaard effective July 1, 2008.



INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District #347
Willmar, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2007 financial statements as audited by another firm and, in their report dated October 15, 2007, they expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Food Service and Community Service Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2008

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

This section of Willmar Public Schools – Independent School District No. 347's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year (FY) ending June 30, 2008. Please read it in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Government Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL REVIEW

Key financial items for the 2007-2008 fiscal year include the following:

- The General Fund undesignated-unreserved fund balance again exceeded the School Board's fund balance goal of 6% of expenditures with a fund balance of \$4,397,084, equivalent to 10.3% of expenditures. Notably, this key fund balance decreased by \$1,430,119, or 24.5%, compared to an increase of \$430,105 last year.
- Net Assets decreased 2.2% from the prior year. A prior period adjustment was made to the financial statements. The beginning net assets of the governmental activities have been increased to reflect an understatement of capital assets as of June 30, 2007. The beginning net assets of the governmental activities have been decreased to reflect an understatement of severance payable as of June 30, 2007. Beginning governmental activities net assets have been restated from \$21,782,944 to \$19,458,038 (a net decrease of \$2,324,906).
- The combined Governmental Funds fund balance decreased by 22.5%, or \$2,193,180.
- The District reduced its outstanding long-term liabilities by \$1,978,410, or 9.3%.
- Enrollment decreased by 38 ADM's (Average Daily Membership) in FY 2008.
- Four Financial Awards: The District's comprehensive annual financial report for the year ended June 30th, 2007 was awarded several prestigious financial reporting awards by the Government Finance Officers Association of the United States and Canada (GFOA) and the Association of School Business Officials (ASBO). The District's Original 2007-08 Budget received the ASBO Meritorious Budget Award. The District also received the Minnesota Department of Education 2008 School Finance Award. Read the District's 2008 comprehensive annual financial report for more information about these awards.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts. They are:

- Independent Auditor's Report,
- Required Supplementary information which includes the Management's Discussion and Analysis (this section), and
- Basic financial statements

The basic financial statements include two kinds of statements that present different views of the District:

- The **government-wide financial statements**, including the Statement of Net Assets and the Statement of Activities, provide both **short-term** and **long-term** information about the District's **overall** financial status.
- The remaining statements are **fund financial statements** that focus on **individual parts** of the District, reporting the District's operations in **more detail** than the government-wide statements. The District maintains three groups of fund financial statements. They are:
 - The **governmental funds statements** tell how basic services such as regular and special education were financed in the **short term** as well as what remains for future spending.
 - **Proprietary funds statements** offer **short** and **long-term** financial information about the activities the District operates like **businesses**.
 - **Fiduciary funds statements** provide information about the financial relationships in which the District acts solely as a **trustee or agent** for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Government-wide Statements

The government-wide statements (Statement of Net Assets and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes **all** of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's **net assets** and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or **position**.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

In the government-wide financial statements the District's activities are shown in one category titled Governmental Activities:

- **Governmental Activities** – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food service, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's **funds** – focusing on its most significant or "major" funds – rather than the District as a whole.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as a Scholarship fund to manage scholarship money.

The District has three kinds of funds:

- **Governmental funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how **cash and other financial assets** that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed **short-term** view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.
- **Proprietary funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's sole Proprietary fund is an internal service fund.
 - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for the dental self-insurance program.
- **Fiduciary funds** – The District is a trustee, or fiduciary, for assets that belong to others, such as the Private Purpose Trust Fund. This fund accounts for scholarship gifts and bequests. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A prior period adjustment was made to the financial statements. The beginning net assets of the governmental activities have been increased to reflect an understatement of capital assets as of June 30, 2007. The beginning net assets of the governmental activities have been decreased to reflect an understatement of severance payable as of June 30, 2007. Beginning governmental activities net assets have been restated from \$21,782,944 to \$19,458,038 (a net decrease of \$2,324,906). The District's *combined* net assets were \$19,021,751 on June 30, 2008. This was a decrease of 2.2% from the previous year (see Table A-1 below).

**Table A-1
The District's Net Assets**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Current and Other Assets	\$ 17,427,849	\$ 19,722,026	-11.63%
Capital and Non-Current Assets	30,896,968	31,161,499	-0.85%
Total Assets	<u>48,324,817</u>	<u>50,883,525</u>	-5.03%
Current Liabilities	\$ 9,972,253	\$ 10,116,264	-1.42%
Long-term Liabilities	19,330,813	21,309,223	-9.28%
Total Liabilities	<u>29,303,066</u>	<u>31,425,487</u>	-6.75%
Net Assets			
Invested in Capital Assets Net of Related Debt	\$ 16,590,276	\$ 15,416,819	7.61%
Restricted	1,657,445	2,015,439	-17.76%
Unrestricted	774,030	2,025,780	-61.79%
Total Net Assets	<u>\$ 19,021,751</u>	<u>\$ 19,458,038</u>	-2.24%

The largest portion of the District's net assets (87.2%) reflects its investment in capital assets (e.g., land, buildings and improvements, furniture, and equipment net of accumulated depreciation); less any related outstanding debt (such as general obligation bonds) used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- An additional portion of the District's net assets (8.7%) represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of the *unrestricted net assets* (4.1%) may be used to meet the District's obligations to students, employees and creditors and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

A summary of the revenues and expenses for the last two fiscal years is presented in Table A-2 below.

**Table A-2
Change in Net Assets**

	Governmental Activities for the fiscal year ended June 30,		Percentage Change
	2008	2007	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,043,736	\$ 2,907,983	-29.72%
Operating Grants and Contributions	15,705,789	14,945,418	5.09%
Capital Grants and Contributions	697,859	652,077	7.02%
<u>General Revenues</u>			
Property Taxes	5,407,585	4,918,683	9.94%
Unrestricted State Aid	23,903,451	23,461,186	1.89%
Investment Earnings	408,458	491,828	-16.95%
Other	36,524	128,986	-71.68%
Total Revenues	<u>48,203,402</u>	<u>47,506,161</u>	1.47%
Expenses			
Administration	\$ 1,544,907	\$ 1,614,112	-4.29%
District Support Services	885,154	919,392	-3.72%
Regular Instruction	21,704,551	19,617,570	10.64%
Vocational Education Instruction	730,195	627,729	16.32%
Special Education Instruction	8,055,217	7,731,391	4.19%
Instructional Support Services	2,492,349	2,047,363	21.73%
Pupil Support Services	3,397,152	3,233,078	5.07%
Sites and Buildings	4,722,635	4,586,523	2.97%
Fiscal and Other Fixed Costs Programs	159,340	240,254	-33.68%
Food Service	2,208,624	1,961,452	12.60%
Community Service	2,094,012	2,049,275	2.18%
Interest and Fiscal Charges on Long-Term Liabilities	645,553	829,447	-22.17%
Total Expenses	<u>48,639,689</u>	<u>45,457,586</u>	7.00%
Change in Net Assets	\$ (436,287)	\$ 2,048,575	-121.30%
Beginning Net Assets	<u>19,458,038</u>	<u>17,409,463</u>	11.77%
Ending Net Assets	<u>\$ 19,021,751</u>	<u>\$ 19,458,038</u>	-2.24%

INDEPENDENT SCHOOL DISTRICT # 347

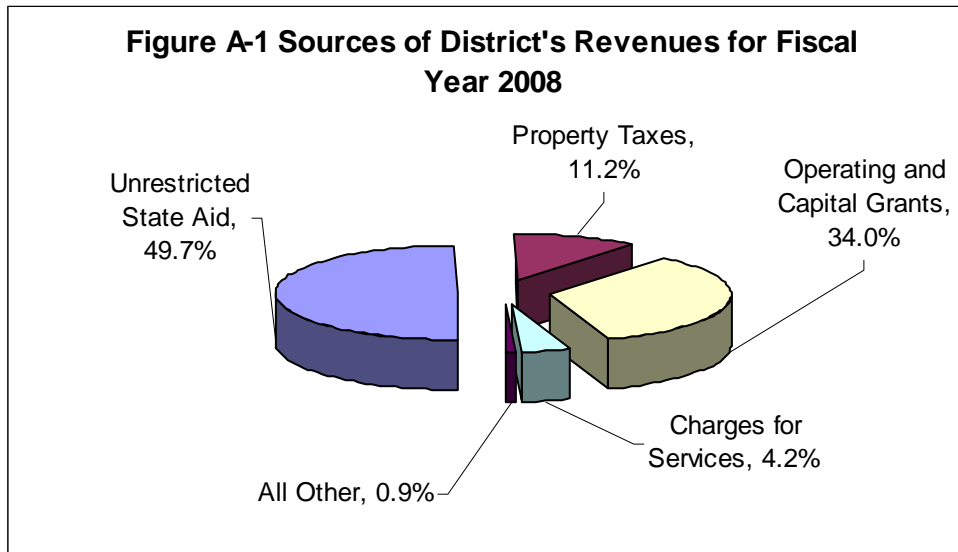
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

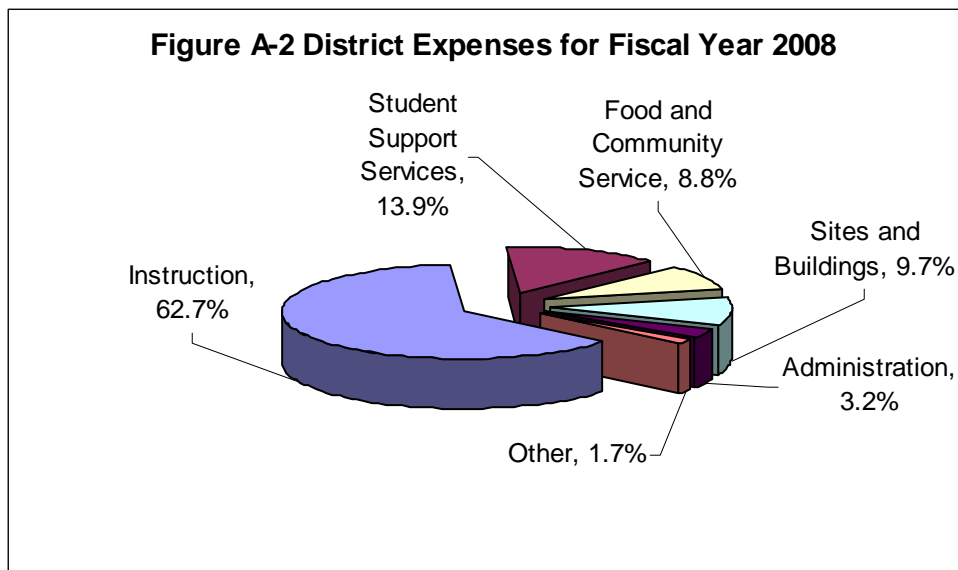
Changes in Net Assets. The District's total revenues were \$48,203,402 for the year ended June 30, 2008. This is a 1.47% increase over the prior year's revenues.

State and federal aid along with local property taxes accounted for 60.9% of the total revenue for the year (see Figure A-1 below). Another 38.2% came from program revenues and the remaining 0.9% from earnings on investments and other.

Total expenses surpassed revenues, decreasing net assets \$436,287 from last year.



The District's total expenditures for programs and services were \$48,639,689 for the year ended June 30, 2008. This is a 7.0% increase over the prior year's expenditures. The District's expenses are predominantly related to student education (76.6%). (See Figure A-2). The purely administrative activities of the District accounted for just 3.2% of total costs.



INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- The net cost of all **governmental** activities is their total costs less program revenues applicable to each category. The total cost of all governmental activities for this year was \$48,639,689. Table A-3 presents the costs of twelve major District activities such as instruction, food service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).
 - The users of the District's programs paid for 4.2%, or \$2,043,736 of the costs.
 - The federal and state governments subsidized certain programs with grants and contributions. This totaled \$16,403,648, or 33.7% of the total costs for 2007-2008.
 - The remainder of the District's costs (\$30,192,305), however, were paid for by: 1) state taxpayers based on the statewide education aid formula, 2) by District taxpayers, and 3) by investment earnings.

**Table A-3
Change in Net Assets**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>		<u>2008</u>	<u>2007</u>	
Administration	\$ 1,544,907	\$ 1,614,112	-4.29%	\$ 1,544,907	\$ 1,613,571	-4.26%
District Support Services	885,154	919,392	-3.72%	855,476	807,601	5.93%
Regular Instruction	21,704,551	19,617,570	10.64%	14,531,240	11,887,276	22.24%
Vocational Education Instruction	730,195	627,729	16.32%	609,343	527,495	15.52%
Special Education Instruction	8,055,217	7,731,391	4.19%	2,882,473	2,593,393	11.15%
Instructional Support Services	2,492,349	2,047,363	21.73%	1,813,049	1,342,834	35.02%
Pupil Support Services	3,397,152	3,233,078	5.07%	3,140,410	2,914,068	7.77%
Sites and Buildings	4,722,635	4,586,523	2.97%	3,781,515	4,423,398	-14.51%
Fiscal and Other Fixed Costs Programs	159,340	240,254	-33.68%	159,340	(265,680)	-159.97%
Food Service	2,208,624	1,961,452	12.60%	978	(90,958)	-101.08%
Community Service	2,094,012	2,049,275	2.18%	228,021	369,663	-38.32%
Interest and Fiscal Charges on Long-Term Liabilities	645,553	829,447	-22.17%	645,553	829,447	-22.17%
Total	<u>\$ 48,639,689</u>	<u>\$ 45,457,586</u>	7.00%	<u>\$ 30,192,305</u>	<u>\$ 26,952,108</u>	12.02%

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2007-2008 fiscal year, the District's governmental funds reported a **combined** fund balance of \$7,539,635, a 22.5% decrease from last year's ending fund balance of \$9,732,815.

Revenues for the District's governmental funds totaled \$48,096,194 while total expenditures were \$50,384,509. Other financing sources totaled \$95,135. As a result, the District completed the year with an excess of expenditures over revenues and other financing sources of \$2,193,180. Discussion about each governmental fund follows. A summary of the revenues and expenditures reported on the governmental fund financial statements for the past two years appears in Table A-4 below:

**Table A-4
Revenues and Expenditures - Governmental Funds**

	2008			
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources(Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 41,038,954	\$ 42,897,780	\$ 95,135	\$ (1,763,691)
Food Service Fund	2,212,999	2,208,624		4,375
Community Service Fund	2,196,730	2,280,929		(84,199)
Capital Projects Fund	473	413,346		(412,873)
Debt Service Fund	2,647,038	2,583,830		63,208
Totals	<u>\$ 48,096,194</u>	<u>\$ 50,384,509</u>	<u>\$ 95,135</u>	<u>\$ (2,193,180)</u>
	2007			
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources(Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 40,370,308	\$ 40,136,576	\$ 332,832	\$ 566,564
Food Service Fund	2,055,222	1,961,452		93,770
Community Service Fund	2,168,039	2,045,631		122,408
Capital Projects Fund		75,692	488,565	412,873
Debt Service Fund	2,592,276	2,533,563	8,677	67,390
Totals	<u>\$ 47,185,845</u>	<u>\$ 46,752,914</u>	<u>\$ 830,074</u>	<u>\$ 1,263,005</u>

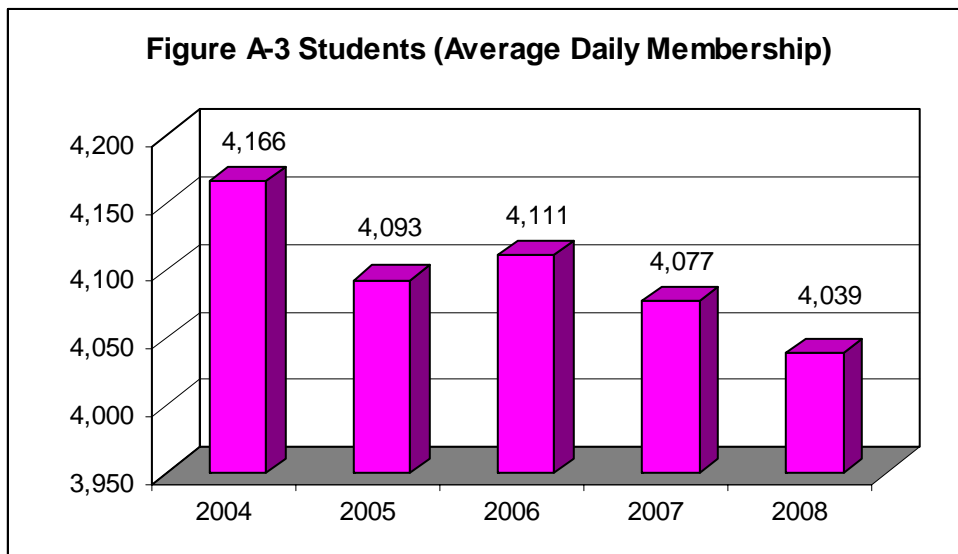
INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from kindergarten through grade 12. Pupil transportation activities and capital and major maintenance projects are also included in the General Fund.

Enrollment. Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. Over the last five years, the District has averaged an annual 1.05% decline in the number of students. Figure A-3, below, shows that the number of students has generally decreased steadily through FY 2008 with enrollment increasing slightly in FY 2006.



In general, the District's long-term enrollment decline is a function of demographic trends affecting the majority of Minnesota school districts. These trends include a decline in the number of households with children, lower overall populations of children, and increased mobility. In addition, the District also faces typical enrollment challenges from open enrollment options, drop outs and competition from local private schools and home schooling options.

Looking into the near future, demographic trends point to a more level enrollment trend. This conclusion is based on a detailed demographic study completed in the spring of 2006 along with recent trends and analysis. There are a number of signs that point to successful economic development trends in Kandiyohi County. It is too early to tell how positively this economic expansion will affect enrollment.

Because of the above-mentioned demographic trends and even factoring in promising economic development taking place in the Willmar area, the District projects that enrollment will begin to level out, based on the information available to us. However, the leveling out will include slight increases or decreases to enrollment each year.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

**Table A-5
General Fund Revenues**

Fund	Year Ended June 30,		Amount Difference	Percent Change
	2008	2007		
Local Sources				
Property Taxes	\$ 2,769,568	\$ 2,411,863	\$ 357,705	14.8%
Interest Earnings	318,763	401,290	(82,527)	-20.6%
Other	1,156,755	1,949,742	(792,987)	-40.7%
State Sources	34,914,994	34,111,061	803,933	2.4%
Federal Sources	1,878,874	1,496,352	382,522	25.6%
Total General Fund Revenues	<u>\$ 41,038,954</u>	<u>\$ 40,370,308</u>	<u>\$ 668,646</u>	1.7%

Total General Fund revenue increased \$668,646, or 1.7%, from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including operating levy referendum, involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Property taxes in 2008 were \$357,705, or 14.8%, more than the prior year. The increase is mainly the result of higher property values which causes an increase to the local levy. Interest earnings decreased \$82,527 from the prior year as a result of declining interest rates. Other local sources decreased \$792,987 primarily due to federal flow through revenue being recorded as a federal source versus other local source as in the prior year. In addition, the District received less donations and grants. State sources of revenue increased by \$803,933, or 2.4%, from 2007. The increase is due to an increase in the formula allowance, school technology and operating capital and deferred maintenance. Federal revenues increased \$382,522, or 25.6%, from the previous year. This increase is due to federal flow through revenue recorded as a federal source instead of as other local source.

The following table presents a summary of General Fund expenditures:

**Table A-6
General Fund Expenditures**

Fund	Year Ended June 30,		Amount Difference	Percent Change
	2008	2007		
Salaries	\$ 24,849,960	\$ 23,442,117	\$ 1,407,843	6.0%
Employee Benefits	7,458,981	6,548,812	910,169	13.9%
Purchased Services	7,239,809	7,485,085	(245,276)	-3.3%
Supplies and Materials	1,950,430	1,352,765	597,665	44.2%
Capital Expenditures	1,245,459	1,075,893	169,566	15.8%
Other Expenditures	153,140	231,904	(78,764)	-34.0%
Total General Fund Expenditures	<u>\$ 42,897,780</u>	<u>\$ 40,136,576</u>	<u>\$ 2,761,204</u>	6.9%

Total General Fund expenditures increased \$2,761,204 or 6.9% from the previous year.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

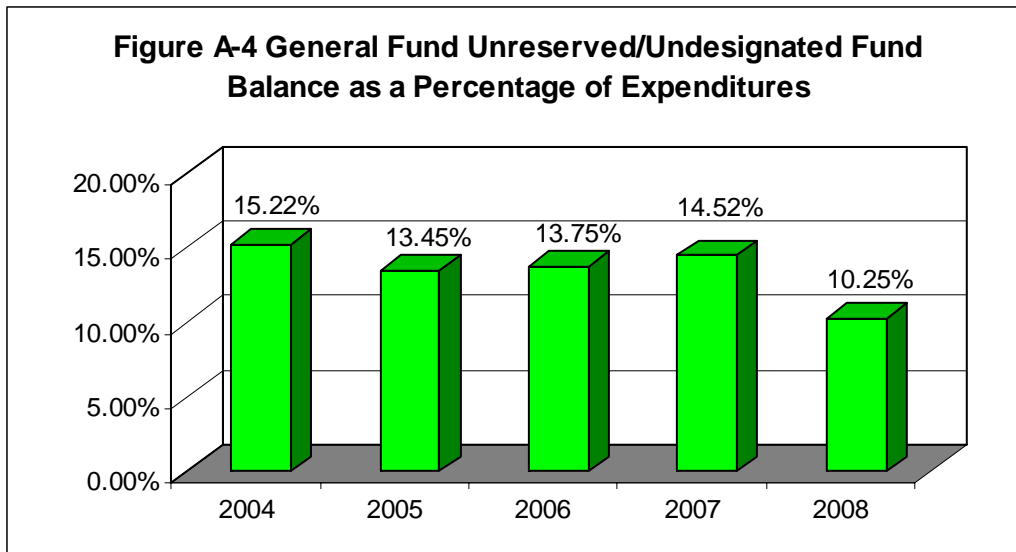
GENERAL FUND (CONTINUED)

Salaries and employee benefits increased due to the settlement of the 2007-2009 contracts and the District's decision to add back some programming. Benefits also increased due to an increase in health insurance premiums, TRA and PERA contributions. The District continues to proactively pursue various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Combined non-payroll expenditures (Purchased Services, Supplies & Materials, Capital Expenditures and Other Expenditures) increased by \$443,191 or 4.4%, compared to last year. The increase is primarily due to the increased cost of fuel which caused an increase in more than just the purchase of gasoline but also in the cost of various supplies and fuel charge costs added by suppliers.

In summary, 2007-2008 General Fund expenditures exceeded General Fund revenues by \$1,858,826. As a result, and after factoring in \$1,999 from the sale of capital assets and \$93,136 of insurance recovery and Microsoft settlement proceeds, the total fund balance decreased by \$1,763,691 to \$6,115,487 at June 30, 2008. After deducting statutory reserves, the unreserved-undesignated fund balance decreased from \$5,827,203 on June 30, 2007 to \$4,397,084 on June 30, 2008.

Figure A-4, below, depicts the General Fund unreserved-undesignated fund balance as a percentage of expenditures for fiscal years 2004 - 2008:



The graph above describing the District's unreserved-undesignated fund balance trend, offers the single best measure of the District's overall financial health. The unreserved-undesignated fund balance of \$4,397,084 on June 30, 2008 represents 10.25% of annual expenditures.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

GENERAL FUND (CONTINUED)

The District closely monitors the General Fund unreserved-undesignated fund balance through use of a detailed financial planning model, initiating necessary budget revisions during the year and with monthly budget analysis. The School Board has adopted a formal fund balance policy to maintain a minimum 6 percent (as a percentage of expenditures) fund balance in the General Fund unreserved-undesignated fund.

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1). Over the course of the year, the District revised the annual operating budget once. The budget amendment usually falls into two categories:

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2007.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$1,887,138, the actual results for the year show that expenditures exceeded revenues by \$1,858,826. Actual results were very close to the budget.

FOOD SERVICE FUND

The Food Service Fund revenue for 2007-2008 totaled \$2,212,999 and expenditures were \$2,208,624, resulting in a fund balance increase of \$4,375. This fund balance improvement was primarily a result of continued effective cost control. The June 30, 2008 Food Service fund balance is \$193,298.

The Food Service Fund is anticipating another modest fund balance increase for 2008-2009.

COMMUNITY SERVICE FUND

In 2007-2008, total revenues for the Community Service Fund were \$2,196,730 and total expenditures were \$2,280,929. Total expenditures exceeded revenues by \$84,199, resulting in a decrease of the same amount in the June 30, 2008 fund balance. The Community Service Fund fund balance as of June 30, 2008 is \$264,868. Community Service continues to monitor the fund balance and make adjustments that allow for the optimal level of programming for the District.

DEBT SERVICE FUND

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedules. The Debt Service Fund revenues and other financing sources exceeded expenditures by \$63,208 in 2007-2008. The resulting fund balance increase leaves the Debt Service Fund with a \$965,982 fund balance at June 30, 2008. This fund balance is available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District had net capital assets of \$30,896,968 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7 below). Total depreciation expense for the year was \$1,293,447. More detailed information about capital assets can be found in Note 4 to the financial statements.

**Table A-7
The District's Capital Assets**

Fund	2008	2007	Percent Change
Land	\$ 623,282	\$ 623,282	0.0%
Land Improvements	3,054,702	2,656,664	15.0%
Buildings and Improvements	45,982,312	45,859,270	0.3%
Equipment	5,400,442	5,173,667	4.4%
Less: Accumulated Depreciation	<u>(24,163,770)</u>	<u>(23,151,384)</u>	4.4%
Total Net Capital Assets	<u>\$ 30,896,968</u>	<u>\$ 31,161,499</u>	-0.8%

Construction Plans

The School Board has postponed any activity related to a potential bond referendum for facility needs due to the need to address increasing revenue through an operating referendum.

The School Board will continue to meet in a workshop setting with other local governmental entities annually to be apprised of other projects coming up in the District that will impact constituents of the city, county, and school district.

Long-term Liabilities

At year-end, the District had \$14,378,808 in general obligation bonds outstanding. This is a decrease of 11.8% from the previous year - as shown in Table A-8 below. The District also had \$4,779,946 in severance and health benefits payable at June 30, 2008, a decrease of 1.4% from the previous year. Overall, the District's outstanding long-term liabilities decreased by 9.3% in fiscal year 2008. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

The District continues to pay down its debt, retiring \$1,820,000 of outstanding bonds in the year ending June 30, 2008.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

**Table A-8
The District's Long-Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 15,585,000	\$	\$ 1,820,000	\$ 13,765,000	\$ 1,835,000
Bond Premium	715,074		101,266	613,808	100,999
Severance and Health Benefits Payable	4,845,628	354,693	420,375	4,779,946	477,995
Compensated Absences Payable	163,521	155,917	147,379	172,059	154,853
Total	<u>\$ 21,309,223</u>	<u>\$ 510,610</u>	<u>\$ 2,489,020</u>	<u>\$ 19,330,813</u>	<u>\$ 2,568,847</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of a voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional needs and increased costs due to inflation.

The 2007 Legislative Session was completed in May. The basic formula for 2007-2008 was increased by 2% for the 2007-2008 school year and 1% for the 2008-2009 school year. Additional one time money was added for operating capital/technology aid. This calculation is \$40 per pupil unit for 2007-2008 and \$55 for 2008-2009. Kindergarten weighting was increased from .557 to .612. Gifted and Talented Revenue was increased from \$9 per AMCPU to \$12 beginning in FY 2008. Equity revenue increased from \$23 to \$46. Safe schools levy increased from \$27 to \$30. The ECFE revenue was increased from \$112 to \$120 per resident under the age of five. State school lunch reimbursement was increased from 10.5 cents per meal to 12 cents per meal.

The District is going to the voters in November, 2008 to ask for additional operating revenue. The first operating referendum, if passed, would increase revenue an additional \$201.51 per pupil. The second operating referendum question, if passed, would increase revenue an additional \$374.36 per pupil. If neither question passes, the District is projecting budget reductions of approximately \$2,544,081 for 2009-2010.

The Willmar area continues to develop from an economic standpoint. Additional retail entities have located or expanded in Willmar, and industrial development is also on the horizon. A new airport has been completed as well as a major renovation project at Rice Memorial Hospital. A revised and enhanced industrial park will be completed in the next few years. City infrastructure is also being addressed through projects such as the new wastewater treatment facility that is being planned. Storm water retention issues are challenges that the City of Willmar is dealing with at the current time. The Willmar Municipal Utilities is going forward with the construction of wind turbines. Rice Hospital is making plans to construct a new nursing home and long-term care facility. A new psychiatric hospital was built in Willmar. The City of Willmar and Kandiyohi County Economic Development Commission is working to secure a Veterans Home in Willmar. They have also worked to bring in a biomass pellet plant production company to the community. The MinnWest Technology Campus that began development three years ago is continuing to thrive and secure new technology based businesses for their campus. Many of the above-mentioned projects have come to fruition as a result of public entities working collaboratively as well as public and private partnerships that have formed on behalf of economic development.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide District citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 347, 611 5th St SW, Willmar, MN 56201-3297, visit the Finance section of the District website at www.willmar.k12.mn.us (click on District, Finance, and Finance Home), or contact Pam Harrington, Director of Business and Finance, at harringtonp@willmar.k12.mn.us and 320-231-8511.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET ASSETS

JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

	Governmental Activities	
	2008	2007
ASSETS		
Cash and investments	\$ 9,315,708	\$ 11,513,398
Receivables		
Property taxes	2,966,770	3,009,356
Other governments	4,765,792	4,573,832
Other	178,778	461,586
Prepaid items	72,745	27,984
Inventories	55,940	52,754
Bond issuance costs, net	72,116	83,116
Capital assets:		
Land	623,282	623,282
Other capital assets, net of depreciation	30,273,686	30,538,217
Total Assets	\$ 48,324,817	\$ 50,883,525
LIABILITIES AND NET ASSETS		
Liabilities		
Salaries and wages payable	\$ 3,624,788	\$ 3,259,242
Accounts and contracts payable	565,689	990,492
Due to other governmental units	44,411	16,894
Accrued interest	284,708	312,719
Unearned revenue		
Property taxes	5,312,339	5,366,327
Local sources	140,318	170,590
Noncurrent liabilities		
Due within one year	2,568,847	2,553,266
Due in more than one year	16,761,966	18,755,957
Total Liabilities	29,303,066	31,425,487
Net Assets		
Invested in capital assets, net of related debt	16,590,276	15,416,819
Restricted for		
Operating capital purposes	340,076	485,009
State-mandated reserves	177,929	402,385
Food service	193,298	188,923
Community service	264,868	349,067
Debt service	681,274	590,055
Unrestricted	774,030	2,025,780
Total Net Assets	19,021,751	19,458,038
Total Liabilities and Net Assets	\$ 48,324,817	\$ 50,883,525

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008				2007	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Governmental Activities
GOVERNMENTAL ACTIVITIES:						
Administration	\$ 1,544,907	\$	\$	\$ (1,544,907)	\$ (1,613,571)	
District support services	885,154		29,678	(855,476)	(807,601)	
Regular instruction	21,704,551	421,324	6,751,987	(14,531,240)	(11,887,276)	
Vocational education instruction	730,195	27,160	93,692	(609,343)	(527,495)	
Special education instruction	8,055,217	104,241	5,068,503	(2,882,473)	(2,593,393)	
Instructional support services	2,492,349	15,799	663,501	(1,813,049)	(1,342,834)	
Pupil support services	3,397,152		256,742	(3,140,410)	(2,914,068)	
Sites and buildings	4,722,635	34,394	208,867	697,859	(3,781,515)	(4,423,398)
Fiscal and other fixed costs programs	159,340			(159,340)	265,680	
Food service	2,208,624	773,685	1,433,961	(978)	90,958	
Community service	2,094,012	667,133	1,198,858	(228,021)	(369,663)	
Interest and fiscal charges on long-term liabilities	645,553			(645,553)	(829,447)	
Total Governmental Activities	<u>\$ 48,639,689</u>	<u>\$ 2,043,736</u>	<u>\$ 15,705,789</u>	<u>\$ 697,859</u>	<u>(30,192,305)</u>	<u>(26,952,108)</u>
GENERAL REVENUES:						
Property taxes levied for:						
General purposes				2,776,231	2,408,339	
Community service				281,805	246,165	
Debt service				2,349,549	2,264,179	
State aid not restricted to specific purposes				23,903,451	23,461,186	
Interest earnings				408,458	491,828	
Gain on sale of capital assets				1,999	128,986	
Miscellaneous				34,525		
Total General Revenues				<u>29,756,018</u>	<u>29,000,683</u>	
Change in Net Assets				(436,287)	2,048,575	
NET ASSETS, BEGINNING OF YEAR, AS ORIGINALLY STATED				19,458,038	19,960,247	
PRIOR PERIOD ADJUSTMENT					(2,550,784)	
NET ASSETS, BEGINNING OF YEAR, AS RESTATED				<u>19,458,038</u>	<u>17,409,463</u>	
NET ASSETS, END OF YEAR				<u>\$ 19,021,751</u>	<u>\$ 19,458,038</u>	

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

	ASSETS					
	General	Food Service	Community Service	Debt Service	Total Governmental Funds 2008	2007
Cash and investments	\$ 6,727,141	\$ 91,427	\$ 416,937	\$ 1,976,037	\$ 9,211,542	\$ 11,420,075
Receivables						
Current property taxes	1,538,029		163,005	1,218,799	2,919,833	2,974,492
Delinquent property taxes	22,666		2,434	21,837	46,937	34,864
Due from other Minnesota school districts	258,406				258,406	253,358
Due from Minnesota Department of Education	3,733,168	22,508	76,222	23,332	3,855,230	3,836,360
Due from Federal through Minnesota Department of Education	312,070	150,805	52,001		514,876	387,856
Due from Federal Government received directly	66,021				66,021	95,709
Due from other governmental units	71,259				71,259	549
Other receivables	158,324	3,713	16,741		178,778	461,586
Prepaid items	62,466	773	9,506		72,745	27,984
Inventories	28,882	27,058			55,940	52,754
Total Assets	<u>\$ 12,978,432</u>	<u>\$ 296,284</u>	<u>\$ 736,846</u>	<u>\$ 3,240,005</u>	<u>\$ 17,251,567</u>	<u>\$ 19,545,587</u>
	LIABILITIES AND FUND BALANCE					
Liabilities						
Salaries and wages payable	\$ 3,469,223	\$ 45,578	\$ 109,987	\$	\$ 3,624,788	\$ 3,259,242
Accounts and contracts payable	501,101	16,362	25,676		543,139	964,855
Due to other governmental units	15,539		28,872		44,411	16,894
Deferred revenue						
Property taxes levied for subsequent year	2,755,144		305,009	2,252,186	5,312,339	5,366,327
Delinquent property taxes	22,666		2,434	21,837	46,937	34,864
Local sources	99,272	41,046			140,318	170,590
Total Liabilities	6,862,945	102,986	471,978	2,274,023	9,711,932	9,812,772
Fund Balance						
Reserved for						
Staff development	169,842				169,842	363,222
Severance and health benefits	1,200,000				1,200,000	1,200,000
Gifted and talented	36,369				36,369	39,163
Health and safety	(28,282)				(28,282)	(35,419)
Operating capital	340,076				340,076	485,009
Community education programs			96,337		96,337	159,229
Early childhood and family educations programs						12,611
School readiness			1,660		1,660	
Safe schools	398				398	
Building construction						412,873
Unreserved, undesignated, reported in						
General fund	4,397,084				4,397,084	5,827,203
Debt service fund				965,982	965,982	902,774
Special revenue funds		193,298	166,871		360,169	366,150
Total Fund Balance	<u>6,115,487</u>	<u>193,298</u>	<u>264,868</u>	<u>965,982</u>	<u>7,539,635</u>	<u>9,732,815</u>
Total Liabilities and Fund Balance	<u>\$ 12,978,432</u>	<u>\$ 296,284</u>	<u>\$ 736,846</u>	<u>\$ 3,240,005</u>	<u>\$ 17,251,567</u>	<u>\$ 19,545,587</u>

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
Total Fund Balances - Governmental Funds	\$ 7,539,635	\$ 9,732,815
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds. Those assets consist of:</p>		
Land	623,282	623,282
Land improvements, net of accumulated depreciation	1,496,857	1,059,303
Buildings and improvements, net of accumulated depreciation	27,042,225	27,795,640
Equipment and vehicles, net of accumulated depreciation	1,734,604	1,683,274
<p>Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.</p>		
	46,937	34,864
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
	(284,708)	(312,719)
<p>Governmental funds report debt issuance costs as expenditures at the time of issuance. Issuance costs are reported as an unamortized asset in the government-wide financial statements.</p>		
	72,116	83,116
<p>Internal service funds are used by management to charge the costs associated with Delta Dental Insurance. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.</p>		
	81,616	67,686
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:</p>		
Bonds payable	(13,765,000)	(15,585,000)
Unamortized premiums	(613,808)	(715,074)
Severance and health benefits payable	(4,779,946)	(4,845,628)
Compensated absences payable	(172,059)	(163,521)
	<u>(19,330,813)</u>	<u>(19,309,229)</u>
Total Net Assets - Governmental Activities	<u>\$ 19,021,751</u>	<u>\$ 19,458,038</u>

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	General	Food Service	Community Service	Capital Projects	Debt Service	Total Governmental Funds	
						2008	2007
REVENUES							
Local sources							
Property taxes	\$ 2,769,568	\$	\$ 281,075	\$	\$ 2,344,867	\$ 5,395,510	\$ 4,931,199
Interest earnings	318,763	5,354	15,013	473	68,856	408,459	491,828
Other	1,156,755	775,699	949,856			2,882,310	3,592,946
State sources	34,914,994	189,131	883,652		233,315	36,221,092	35,315,441
Federal sources	1,878,874	1,242,815	67,134			3,188,823	2,854,431
Total Revenues	41,038,954	2,212,999	2,196,730	473	2,647,038	48,096,194	47,185,845
EXPENDITURES							
Current							
Administration	1,546,127					1,546,127	1,543,232
District support services	872,978					872,978	959,115
Regular instruction	19,967,831					19,967,831	18,220,574
Vocational education instruction	744,309					744,309	612,387
Special education instruction	8,112,649					8,112,649	7,593,015
Instructional support services	2,398,440					2,398,440	1,953,089
Pupil support services	3,393,865					3,393,865	3,158,359
Sites and buildings	4,457,644			166,723		4,624,367	4,781,520
Fiscal and other fixed costs programs	158,478					158,478	239,392
Food service		2,156,016				2,156,016	1,951,394
Community service			2,094,107			2,094,107	2,025,813
Capital outlay	1,245,459	52,608	186,822	246,623		1,731,512	1,181,461
Debt service							
Principal					1,820,000	1,820,000	1,505,425
Interest and fiscal charges					763,830	763,830	1,028,138
Total Expenditures	42,897,780	2,208,624	2,280,929	413,346	2,583,830	50,384,509	46,752,914
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,858,826)	4,375	(84,199)	(412,873)	63,208	(2,288,315)	432,931
OTHER FINANCING SOURCES							
Sale of real property proceeds	1,999					1,999	128,986
Judgments for school districts	93,136					93,136	203,846
Sale of bonds proceeds							495,000
Bond premium							2,242
Total Other Financing Sources	95,135	0	0	0	0	95,135	830,074
Net Change in Fund Balances	(1,763,691)	4,375	(84,199)	(412,873)	63,208	(2,193,180)	1,263,005
FUND BALANCE, BEGINNING OF YEAR	7,879,178	188,923	349,067	412,873	902,774	9,732,815	8,469,810
FUND BALANCE, END OF YEAR	\$ 6,115,487	\$ 193,298	\$ 264,868	\$ 0	\$ 965,982	\$ 7,539,635	\$ 9,732,815

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
Total Net Change in Fund Balances - Governmental Funds	\$ (2,193,180)	\$ 1,263,005

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlay is reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlay	1,051,284	933,937
Gain on disposal of capital assets	1,999	128,986
Proceeds from sales of capital assets	(1,999)	(128,986)
Depreciation expense	(1,293,447)	(1,259,781)
Loss on disposal of capital assets	(22,368)	

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is as follows:

General obligation bond proceeds		(495,000)
Bond premium		(2,242)
Bond issuance costs		11,357
Payment of loan and special assessment principal		35,284
Payment of bond principal	1,820,000	1,505,000
Change in accrued interest expense	28,011	97,344
Amortization of bond issuance costs	(11,000)	(11,678)
Amortization of bond premium	101,266	101,668

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.

12,073	(12,516)
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In the statement of activities, certain operating expenses-severance and health benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

57,144	(131,736)
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An internal service fund is used to charge the costs associated with Delta Dental insurance. The net income of the fund is reported with governmental activities.

<u>13,930</u>	<u>13,933</u>
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Change in Net Assets - Governmental Activities

<u>\$ (436,287)</u>	<u>\$ 2,048,575</u>
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See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008			Over (Under) Final Budget	2007
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local sources					
Property taxes	\$ 2,767,862	\$ 2,672,184	\$ 2,769,568	\$ 97,384	\$ 2,411,863
Interest earnings	300,000	368,119	318,763	(49,356)	401,290
Other	1,438,555	1,541,308	1,156,755	(384,553)	1,949,742
State sources	35,661,786	35,463,377	34,914,994	(548,383)	34,111,061
Federal sources	1,844,687	1,433,556	1,878,874	445,318	1,496,352
Total Revenues	42,012,890	41,478,544	41,038,954	(439,590)	40,370,308
EXPENDITURES					
Current					
Administration	1,576,591	1,614,801	1,546,127	(68,674)	1,543,232
District support services	893,226	938,786	872,978	(65,808)	959,115
Regular instruction	19,649,738	19,710,004	19,967,831	257,827	18,220,574
Vocational education instruction	794,359	723,810	744,309	20,499	612,387
Special education instruction	8,376,506	8,378,479	8,112,649	(265,830)	7,593,015
Instructional support services	2,338,831	2,565,600	2,398,440	(167,160)	1,953,089
Pupil support services	3,374,507	3,454,349	3,393,865	(60,484)	3,158,359
Sites and buildings	4,604,060	4,691,790	4,457,644	(234,146)	4,781,520
Fiscal and other fixed costs programs	213,515	160,000	158,478	(1,522)	239,392
Capital outlay	1,128,063	1,128,063	1,245,459	117,396	1,075,893
Total Expenditures	42,949,396	43,365,682	42,897,780	(467,902)	40,136,576
Excess (Deficiency) of Revenues Over (Under) Expenditures	(936,506)	(1,887,138)	(1,858,826)	28,312	233,732
OTHER FINANCING SOURCES					
Sale of real property proceeds			1,999	1,999	128,986
Judgments for school districts	200,000	233,638	93,136	(140,502)	203,846
Total Other Financing Sources	200,000	233,638	95,135	(138,503)	332,832
Net Change in Fund Balances	\$ (736,506)	\$ (1,653,500)	(1,763,691)	\$ (110,191)	566,564
FUND BALANCE, BEGINNING OF YEAR			7,879,178		7,312,614
FUND BALANCE, END OF YEAR			\$ 6,115,487		\$ 7,879,178

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOOD SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008			Over (Under) Final Budget	2007
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local sources					
Interest earnings	\$ 3,000	\$ 4,489	\$ 5,354	\$ 865	\$ 2,812
Other-primarily meal sales	752,701	779,958	775,699	(4,259)	780,817
State sources	185,500	211,038	189,131	(21,907)	159,811
Federal sources	1,151,508	1,174,272	1,242,815	68,543	1,111,782
Total Revenues	2,092,709	2,169,757	2,212,999	43,242	2,055,222
EXPENDITURES					
Current					
Food service	2,003,533	2,051,527	2,156,016	104,489	1,951,394
Capital outlay	59,030	67,580	52,608	(14,972)	10,058
Total Expenditures	2,062,563	2,119,107	2,208,624	89,517	1,961,452
Net Change in Fund Balances	\$ 30,146	\$ 50,650	4,375	\$ (46,275)	93,770
FUND BALANCE, BEGINNING OF YEAR			188,923		95,153
FUND BALANCE, END OF YEAR			\$ 193,298		\$ 188,923

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008			Over (Under) Final Budget	2007
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local sources					
Property taxes	\$ 284,335	\$ 281,430	\$ 281,075	\$ (355)	\$ 246,756
Interest earnings	3,500	13,497	15,013	1,516	16,487
Other-primarily tuition and fees	708,075	829,598	949,856	120,258	862,387
State sources	784,926	889,674	883,652	(6,022)	796,112
Federal sources	49,000	67,982	67,134	(848)	246,297
Total Revenues	1,829,836	2,082,181	2,196,730	114,549	2,168,039
EXPENDITURES					
Current					
Community service	1,809,675	1,953,788	2,094,107	140,319	2,025,813
Capital outlay	7,200	182,223	186,822	4,599	19,818
Total Expenditures	1,816,875	2,136,011	2,280,929	144,918	2,045,631
Net Change in Fund Balances	\$ 12,961	\$ (53,830)	(84,199)	\$ (30,369)	122,408
FUND BALANCE, BEGINNING OF YEAR			349,067		226,659
FUND BALANCE, END OF YEAR			\$ 264,868		\$ 349,067

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

		Governmental Activities- Internal Service Fund	
		2008	2007
ASSETS			
Current Assets			
Cash and investments		\$ 104,166	\$ 93,323
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable		\$ 22,550	\$ 25,637
Net Assets			
Unrestricted		81,616	67,686
Total Liabilities and Net Assets		\$ 104,166	\$ 93,323

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Activities- Internal Service Fund	
	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Charges for services	\$ 243,164	\$ 246,460
OPERATING EXPENSES		
Dental insurance claim payments	200,000	203,198
General administration costs	<u>29,234</u>	<u>29,329</u>
Total Operating Expenses	<u>229,234</u>	<u>232,527</u>
Net Change in Net Assets	13,930	13,933
NET ASSETS, BEGINNING OF YEAR	<u>67,686</u>	<u>53,753</u>
NET ASSETS, END OF YEAR	<u><u>\$ 81,616</u></u>	<u><u>\$ 67,686</u></u>

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Activities- Internal Service Fund	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from interfund services provided	\$ 243,164	\$ 246,460
Payments for administrative costs	(29,234)	(29,329)
Payments for dental fees and insurance claims	(203,087)	(203,143)
	<u>10,843</u>	<u>13,988</u>
Net Increase in Cash and Cash Equivalents		
	10,843	13,988
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>93,323</u>	<u>79,335</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 104,166</u>	<u>\$ 93,323</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 13,930	\$ 13,933
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase (Decrease) in:		
Accounts payable	<u>(3,087)</u>	<u>55</u>
Net Cash Provided By Operating Activities	<u>\$ 10,843</u>	<u>\$ 13,988</u>

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

		Private- Purpose Trust Fund
ASSETS		
Cash and investments		\$ 36,509
Interest receivable		430
		<hr/>
Total Assets		<u>\$ 36,939</u>
NET ASSETS		
Net Assets		
Held in trust for scholarships		<u>\$ 36,939</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2008

		Private- Purpose Trust Fund
ADDITIONS		
Interest earnings		\$ 1,115
DEDUCTIONS		
Scholarship obligations		400
		<hr/>
Change in Net Assets		715
NET ASSETS, BEGINNING OF YEAR		<hr/> 36,224
NET ASSETS, END OF YEAR		<u>\$ 36,939</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Independent School District #347 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The District has the option to apply FASB pronouncements issued after that date to its proprietary funds and has chosen to do so. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Independent School District #347 Board of Education ("District") is the basic level of government which has the financial accountability and control over all activities related to the public school education for the Willmar School District. The District receives funding from local, state, and federal sources and must comply with the expenditure requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, and the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB Statement 14 which are included in the District's reporting entity.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board has a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District except for fiduciary funds. Fiduciary funds are only reported at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of all charges would distort the direct costs and program revenue reported for the various functions concerned.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental activities column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except interest earnings) are recorded as revenues when received because they are generally not measurable until then. Interest earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The District does not use encumbrances for either budgeting or financial reporting purposes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds:

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

The Food Service Special Revenue Fund accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

The Community Service Special Revenue Fund accounts for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services.

The Capital Projects-Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Proprietary Fund:

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program. The self-insurance costs are charged to the various funds based on established premium rates.

Fiduciary Fund:

The Private Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for gifts and bequests that are to be used for scholarships.

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are generally not recorded.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

E. ASSETS, LIABILITIES AND EQUITY

Cash and Investments:

Cash and investments consist of demand deposit accounts, non-negotiable and negotiable certificates of deposit. The certificates of deposit are recorded at fair value.

Cash balances from all funds of the District are pooled and invested, to the extent available, in allowable cash management accounts. Earnings from such accounts are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Cash and Investments: (Cont'd)

For purposes of the statement of cash flows, the District considers cash in bank and all highly liquid instruments (including restricted assets) to be cash and cash equivalents in its proprietary fund.

Accounts Receivable:

Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

Current Property Taxes Receivable:

Current property taxes receivable represent current real and personal property tax levies, certified the previous December and collectible in the current calendar year, which have not been received by the District.

Delinquent Property Taxes Receivable:

Delinquent property taxes receivable represent taxes collectible in the years 2001 to 2007 that remain uncollected at June 30, 2008. They are equally offset by a deferred revenue amount in the liabilities of the fund financial statements.

Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Inventories:

Inventories are recorded using the consumption method of accounting and consist of paper, purchased food, supplies and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture. Paper is recorded at invoice cost, computed on a first-in, first-out method.

Property Taxes Levied for Subsequent Years:

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2008, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital Assets:

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Capital Assets: (Cont'd)

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as an asset and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Accrued Employee Benefits:

Vacation Pay:

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. All outstanding unpaid vacation pay is payable upon termination of employment. At June 30, 2008, unpaid vacation pay totaling \$172,059 is recorded in the financial statements.

Sick Pay:

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Accrued Employee Benefits: (Cont'd)

Severance and Health Benefits:

Severance and health benefits consist of severance payments and post-employment healthcare benefits. Accounting policies for severance and health benefits are described below.

Secretarial Staff:

A severance payment is available to secretaries who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 600 hours, less any TSA match the District contributed. Employees hired after July 1, 2000 are not eligible for severance pay.

Library Clerical Staff and General Paraprofessionals:

A severance payment is available to library clerical staff and general paraprofessionals who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 115 days.

Special Needs Paraprofessionals and Sign Language Interpreters:

A severance payment is available to special needs paraprofessionals and sign language interpreters who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2002 will not be eligible for severance pay.

Food Service Staff:

A severance payment is available to food service staff who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 430 hours.

Administrators:

A severance payment is available to administrators who have completed at least 10 years of continuous service with the District and are at least 55 years of age but not more than 65 years of age. An eligible administrator will receive an amount equal to the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 175 days, less any TSA match the District contributed. Administrators hired after July 1, 2000 are not eligible for severance pay.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Accrued Employee Benefits: (Cont'd)

Severance and Health Benefits: (Cont'd)

Teachers:

A severance payment is available to teachers who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible teacher will receive an amount equal to 50% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 90 days, less any TSA match the District contributed.

Teachers that have completed at least 15 years of continuous service with the District and are at least 55 years of age are also eligible to receive a severance payment in an amount equal to the teacher's number of years of service multiplied by four and the employee's daily rate of pay, not to exceed 100 days, less any TSA match the District contributed.

The maximum combined total severance shall not exceed 150 days. Teachers hired after July 1, 2000 are not eligible for severance pay.

Custodians:

Custodians shall earn ten days of severance pay credit for each full year of service, with accumulation to 150 days. Upon resignation of the employee at age 55 or older, the District shall pay severance equal to 75% of an employee's accumulated severance pay days up to a maximum of 112.5 days, at the employee's daily rate of pay.

Confidential Employees:

A severance payment is available to confidential employees who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2004 are not eligible for severance pay.

Post-Employment Health Care Benefits:

Under the terms of previous employment contracts, when teachers retired between the ages of 55 to 65, the District provided life and health insurance benefits which would cease when such employees attain the age of 65. This benefit is no longer available to employees; however, the District continues to pay health insurance for qualified individuals that retired when this benefit was in effect.

During fiscal year 2008, total expenditures for severance payments and post-employment health care benefits totaled \$420,375. At June 30, 2008, a liability for severance payments and post-employment health care benefits totaling \$4,779,946.

Deferred Revenue:

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for excess tax increment financing receipts in the General Fund.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Fund Balance:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets:

Net assets represent the difference between assets and liabilities in the government-wide, proprietary fund, and fiduciary fund financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions by creditors, grantors, or laws or regulations of other governments.

F. REVENUES AND EXPENDITURES

Revenues:

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection in the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The County generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum which is frozen at \$184,153 for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2008, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. REVENUES AND EXPENDITURES (Cont'd)

Expenditures:

Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Noncurrent liabilities are not recognized as governmental fund expenditures or liabilities.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2007, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. VIOLATIONS OF FINANCE-RELATED OBLIGATIONS

There were no violations of finance-related obligations.

B. DEFICIT FUND BALANCES

The District had no deficit fund balances as of June 30, 2008. As noted on the Balance Sheet - Governmental Funds, the Reserved Fund Balance for Health and Safety in the General Fund has a deficit balance of \$28,282.

C. EXCESS OF EXPENDITURES OVER BUDGET

The Food Service Fund had expenditures of \$2,208,624 and a budget of \$2,119,107, resulting in an excess of expenditures over budget of \$89,517. The Community Service Fund had expenditures of \$2,280,929 and a budget of \$2,136,011, resulting in an excess of expenditures over budget of \$144,918. No other funds of the District have excess expenditures over budget as of June 30, 2008.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3. CASH AND INVESTMENTS

Cash and investments as of June 30, 2008, are as follows:

	<u>Book Balance</u>
Governmental Activities	
Cash and investments	
Pooled cash in checking accounts	\$ 4,802,750
Petty cash	200
Individual fund savings account	12,758
Negotiable certificates of deposit	<u>4,500,000</u>
Total Cash and investments	<u>\$ 9,315,708</u>
Fiduciary Fund	
Cash and investments	
Pooled cash in checking accounts	\$ 11,509
Non-negotiable certificates of deposit	<u>25,000</u>
Total Cash and investments	<u>\$ 36,509</u>

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Minnesota Statutes require all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral. The District does not have a policy that would further limit its collateral choices.

B. INVESTMENTS

Credit Risk. Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, share of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days. The District's investment policy does not further limit its investment choices. The negotiable certificates of deposit are unrated.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment in negotiable certificates of deposit are held by an outside party, not in the name of the District.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 623,282	\$	\$	\$ 623,282
Capital assets, being depreciated				
Land improvements	2,656,664	552,333	(154,295)	3,054,702
Buildings and improvements	45,859,270	123,042		45,982,312
Equipment	5,173,667	375,909	(149,134)	5,400,442
Total capital assets, being depreciated	53,689,601	1,051,284	(303,429)	54,437,456
Less accumulated depreciation for				
Land improvements	(1,597,361)	(99,349)	138,865	(1,557,845)
Buildings and improvements	(18,063,630)	(876,457)		(18,940,087)
Equipment	(3,490,393)	(317,641)	142,196	(3,665,838)
Total accumulated depreciation	(23,151,384)	(1,293,447)	281,061	(24,163,770)
Total capital assets being depreciated, net	30,538,217	(242,163)	(22,368)	30,273,686
Governmental Activities				
Net Capital Assets	<u>\$ 31,161,499</u>	<u>\$ (242,163)</u>	<u>\$ (22,368)</u>	<u>\$ 30,896,968</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Administration	\$ 1,161
District support services	2,407
Regular instruction	1,117,394
Vocational education instruction	8,053
Special education instruction	2,553
Instructional support services	26,504
Pupil support services	24,397
Sites and buildings	93,317
Fiscal and other fixed cost programs	862
Community service	16,799
Total depreciation expense - Governmental Activities	<u>\$ 1,293,447</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5. LONG-TERM DEBT

A. COMPONENTS OF LONG-TERM DEBT

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

	<u>Original Amount Issued</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>	<u>Balance Outstanding</u>
<u>Governmental Activities</u>				
General Obligation Bonds				
Refunding Bonds, Series 2005A	\$ 16,265,000	02/01/15	5.00%	\$ 13,270,000
Capital Facilities, Series 2007A	495,000	02/01/13	4.00%	<u>495,000</u>
Total General Obligation Bonds				13,765,000
Bond premium - net				613,808
Severance and health benefits payable				4,779,946
Compensated absences payable				<u>172,059</u>
Total Governmental Activities				<u><u>\$ 19,330,813</u></u>

B. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments required to retire long-term debt, not including severance and health benefits payable and compensated absences payable are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,835,000	\$ 683,300
2010	1,995,000	592,450
2011	2,100,000	493,650
2012	2,200,000	389,650
2013	2,315,000	280,700
2014-2015	<u>3,320,000</u>	<u>216,000</u>
	<u><u>\$ 13,765,000</u></u>	<u><u>\$ 2,655,750</u></u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5. LONG-TERM DEBT (Cont'd)

C. DESCRIPTION OF LONG-TERM DEBT

General Obligation Bonds:

On November 1, 2003, the District issued \$495,000 of General Obligation Capital Facilities Bonds, Series 2003A. The proceeds of this issue were used to finance various school roofing and parking lot improvements. Capital facilities revenues under Minnesota Statute Section 124.2455, are dedicated to the retirement of these bonds. This bond was fully paid in 2008.

On November 1, 2005, the District issued \$16,265,000 of General Obligation Refunding Bonds, Series 2005A to advance refund the General Obligation Refunding Bonds, Series 1997A. The bonds are due in varying annual installments each February 1 from February 1, 2007 through February 1, 2015, with interest at a rate of 5.00% due semi-annually on February 1 and August 1. The District reduced its total debt service payments by \$1,098,563 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$916,043. Future ad valorem tax levies are dedicated to the retirement of these bonds.

On June 15, 2007, the District issued \$495,000 of General Obligation Capital Facilities Bonds, Series 2007A. The proceeds of this issue were used to finance various school roofing and parking lot improvements. Capital facilities revenues under Minnesota Statute Section 124.2455, are dedicated to the retirement of these bonds. In the event the capital facilities revenues are not sufficient, the District will levy property taxes for the deficiency.

Severance and Health Benefits Payable:

Severance and health benefits payable consist of severance payments and post-retirement health insurance benefits payable to employees upon retirement. Severance and health benefits have been paid by the General and Special Revenue Funds.

Compensated Absences Payable:

Compensated absences payable consists of unused vacation at June 30, 2008. In the past, vacation expense has been paid by the General, Food Service, and the Community Service Funds.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5. LONG-TERM DEBT (Cont'd)

D. CHANGES IN LONG-TERM DEBT

The following table summarizes changes in long-term debt during the year ended June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 15,585,000	\$	\$ (1,820,000)	\$ 13,765,000	\$ 1,835,000
Bond premium	715,074		(101,266)	613,808	100,999
Severance and health benefits payable	4,845,628	354,693	(420,375)	4,779,946	477,995
Compensated absences payable	163,521	155,917	(147,379)	172,059	154,853
Total Governmental Activities	<u>\$ 21,309,223</u>	<u>\$ 510,610</u>	<u>\$ (2,489,020)</u>	<u>\$ 19,330,813</u>	<u>\$ 2,568,847</u>

In addition, the District has available a \$750,000 line of credit with a local financial institution. The line bears interest at variable rates (5.0% at June 30, 2008) and is unsecured. This line matures on October 1, 2008. There is no balance outstanding under this arrangement as of June 30, 2008.

NOTE 6. RESERVED FUND BALANCES

Fund Equity:

Certain portions of fund balance are reserved based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the reserved fund balances for the governmental funds:

A. RESERVED FOR STAFF DEVELOPMENT

In accordance with state statute, and based upon a majority vote of licensed teachers and the School Board, 1% of basic General Education revenue is allocated to staff development. The cumulative excess of such revenues over staff development expenditures is reported as a reservation of fund balance in the General Fund.

B. RESERVED FOR SEVERANCE AND HEALTH BENEFITS

In accordance with state accounting regulations, a reserved fund balance is established for vested severance benefits. The reserved amount represents vested benefits for employees that are estimated to be paid in fiscal year 2009-2010.

C. RESERVED FOR GIFTED AND TALENTED

The fund balance reservation represents accumulated resources available to provide gifted and talented programming in accordance with funding made available for that purpose.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6. RESERVED FUND BALANCES (Cont'd)

D. RESERVED FOR HEALTH AND SAFETY

Reserved for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota Statute, a deficit in this reserve generates specific future levy authority.

E. RESERVED FOR OPERATING CAPITAL

The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a reservation of fund balance in the General Fund.

F. RESERVED FOR SAFE SCHOOLS

The fund balance reservation represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

G. RESERVED FOR COMMUNITY EDUCATION PROGRAMS

The fund balance reservation represents accumulated resources available to provide general community education programming.

H. RESERVED FOR EARLY CHILDHOOD AND FAMILY EDUCATION PROGRAMS

This fund balance reservation represents accumulated resources available to provide services for early childhood family education programming.

I. RESERVED FOR SCHOOL READINESS

The fund balance reservation represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

J. RESERVED FOR BUILDING CONSTRUCTION

The fund balance reservation represents unexpended funds available for current construction projects.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Substantially all employees of the District are required by State law to belong to pension plans administered by the Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

A. TEACHERS RETIREMENT ASSOCIATION

Plan Description:

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II as described:

Tier I	Step Rate Formula	Percentage
Basic	1st ten years if service years are prior to July 1, 2006	2.2% per year
	1st ten years if service years are July 1, 2006 or after	2.7% per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2% per year
	1st ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3% per year early retirement reduction factors for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more.)

-or-

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-1855
651-296-6449
800-657-3853

Funding Policy:

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates were 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for Coordinated members rose to 5.5 percent and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during fiscal year ended June 30, 2007 was approximately \$3.532 billion.

The District contributions for the years ending June 30, 2008, 2007, and 2006 were \$1,089,337, \$945,664, and \$927,705, respectively, equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA

Plan Description:

All full-time and certain part-time employees (other than teachers) of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives.

Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA (Cont'd)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy:

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.0%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.5% effective January 1, 2008.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2008, 2007, and 2006, were \$382,372, \$353,321, and \$334,488, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 8. SELF-INSURED DENTAL PLAN

The District has elected to self-insure their employee dental insurance program. The District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,000 per participant. The District established an internal service fund to account for contributions from other funds for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred but not paid at year end. The District recorded expenses of \$229,234 for the year ended June 30, 2008.

The liability for unpaid claims is included in the Internal Service Fund as accounts payable.

Unpaid Claims, Beginning of Year	\$ 25,637
Incurred Claims	200,000
Claims Payments (cash basis)	<u>(203,087)</u>
Unpaid Claims, End of Year	<u>\$ 22,550</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9. OPERATING LEASES

The District is committed under long-term operating leases for the rental of office equipment and vehicles. Office equipment is leased under varying terms, with leases running through September 2011. Vehicles are leased under varying terms with leases running through July 2012.

Total rent expense includes the following:

	<u>Amount</u>
Maintenance equipment	\$ 15,672
Facilities	54,102
Office equipment	44,381
Vehicles	19,042
Miscellaneous rental	<u>30,943</u>
Total	<u>\$ 164,140</u>

Future minimum lease payments due under existing operating leases are as follows.

<u>Year Ending June 30,</u>	
2009	\$ 69,990
2010	37,090
2011	19,153
2012	6,286
2013	<u>355</u>
	<u>\$ 132,874</u>

NOTE 10. COMMITMENTS AND CONTINGENCIES

A. FEDERAL AND STATE PROGRAMS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

B. CONTINGENCIES

The District is a defendant in a disability discrimination claim. Although the outcome of this claim is not presently determinable, the District believes that the resolution of the matter will not have a material adverse effect on its financial condition.

C. COMMITMENTS

The District had a project in progress at June 30, 2008 with Alliance Building Corporation. The contract amount is \$174,907 with \$73,299 complete at June 30, 2008.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers' compensation. The District purchases commercial insurance coverage for such risks. The District participates in the Minnesota Board of Education Association Insurance Trust (MSBA Trust), a public entity risk pool, for its workers' compensation insurance, property, liability, and other insurance coverages. The MSBA Trust operates as a common risk management and insurance program for approximately 375 member districts. The District pays an annual premium to the MSBA Trust for its insurance coverage. The MSBA Trust agreement provides that the MSBA Trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. The reinsurance point is \$100,000 per occurrence for medical and hospitalization.

The District has joined together with other school districts in Minnesota in the South Central - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12. JOINT POWERS AGREEMENT

The District and the City of Willmar have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational and recreational services to members of the community. It is the intention of the parties to offer these services collaboratively and to coordinate their service programs in order to eliminate duplication of services and in order to maximize the effectiveness of the services provided. The Joint Powers Entity is governed by the Joint Powers Board, which includes five members appointed by the City Council, five members appointed by the School Board, and two students, one recommended by the Senior High School Student Council and one recommended by the Junior High School Council, to be approved and appointed by the City Council and School Board. One School Board member, one City Council member, the City Administrator and the Superintendent of Schools shall serve as ex-officio members to the Board.

The District employs an individual to administer community education, which is in the Community Service Fund. The City is responsible for providing adult and youth recreation programs, adult and youth athletic programs and administer the daily operations of the Dorothy A. Olson Aquatic Center. The District is responsible for providing necessary facilities, services, and employees to provide Early Childhood and Adult Basic Education programs. This agreement is perpetual but may be canceled upon six months written notice by either party.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 13. PRIOR PERIOD ADJUSTMENT

The beginning net assets of the governmental activities have been increased to reflect an understatement of capital assets as of June 30, 2007. The beginning net assets of the governmental activities have been decreased to reflect an understatement of severance payable as of June 30, 2007. Beginning governmental activities net assets have been restated from \$21,782,944 to \$19,458,038 (a net decrease of \$2,324,906).

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008			Over (Under) Final Budget	2007
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local sources					
Property taxes	\$ 2,332,951	\$ 2,340,601	\$ 2,344,867	\$ 4,266	\$ 2,272,580
Interest earnings	40,000	62,849	68,856	6,007	71,239
State sources	240,685	233,035	233,315	280	248,457
Total Revenues	2,613,636	2,636,485	2,647,038	10,553	2,592,276
EXPENDITURES					
Debt service					
Bond principal	1,820,000	1,820,000	1,820,000		1,505,425
Bond interest	750,250	762,680	762,680		1,024,813
Paying agent fees and other	1,200	1,500	1,150	(350)	3,325
Total Expenditures	2,571,450	2,584,180	2,583,830	(350)	2,533,563
Excess of Revenues Over Expenditures	42,186	52,305	63,208	10,903	58,713
OTHER FINANCING SOURCES					
Sale of bonds proceeds					6,435
Bond premium					2,242
Total Other Financing Sources	0	0	0	0	8,677
Net Change in Fund Balances	\$ 42,186	\$ 52,305	63,208	\$ 10,903	67,390
FUND BALANCE, BEGINNING OF YEAR			902,774		835,384
FUND BALANCE, END OF YEAR			\$ 965,982		\$ 902,774

REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT #347

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2008

<u>01 GENERAL FUND</u>		<u>04 COMMUNITY SERVICE</u>	
TOTAL REVENUES	\$ 41,132,090	TOTAL REVENUES	\$ 2,196,730
TOTAL EXPENDITURES	42,897,780	TOTAL EXPENDITURES	2,280,929
RESERVED:		RESERVED:	
403 STAFF DEVELOPMENT	169,842	419 ENCUMBRANCES	
406 HEALTH & SAFETY	(28,282)	431 COMMUNITY EDUCATION	96,337
408 COOPERATIVE REVENUE		432 E.C.F.E.	
409 DEFERRED MAINTENANCE		444 SCHOOL READINESS	1,660
411 SEVERANCE PAY	1,200,000	447 ADULT BASIC EDUCATION	
412 BUS PURCHASES		UNRESERVED:	
414 OPERATING DEBT		418 DESIG. SEVERANCE-INS. PREM.	
416 LEVY REDUCTION		422 UNRESERVED/UNDESIGNATED	166,871
419 ENCUMBRANCES			
423 CERTAIN TEACHER PROGRAMS		<u>06 BUILDING CONSTRUCTION FUND</u>	
424 OPERATING CAPITAL	340,076	TOTAL REVENUES	473
426 \$25 TACONITE		TOTAL EXPENDITURES	413,346
427 DISABLED ACCESSIBILITY		RESERVED:	
428 LEARNING & DEVELOPMENT		407 CAPITAL PROJECTS LEVY	
434 AREA LEARNING CENTER		UNRESERVED:	
435 CONTRACTED ALT. PROGRAMS		422 UNRESERVED/UNDESIGNATED	
436 ST. APPROVED ALT. PROGRAM			
437 GRAD STAND. STAFF DEV		<u>07 DEBT SERVICE FUND</u>	
438 GIFTED & TALENTED	36,369	TOTAL REVENUES	2,647,038
439 GRAD STANDARDS		TOTAL EXPENDITURES	2,583,830
441 BASIC SKILLS PROGRAMS		RESERVED:	
442 CLASS SIZE REDUCTION		425 BOND REFUNDINGS	
443 TELECOMM ACCESS COST		UNRESERVED:	
445 CAREER & TECH. PROGRAMS		422 UNRESERVED/UNDESIGNATED	965,982
449 SAFE SCHOOLS LEVY	398		
UNRESERVED:		<u>08 TRUST FUND</u>	
418 DESIG. SEVERANCE-INS. PREM.		TOTAL REVENUES	1,115
422 UNRESERVED/UNDESIGNATED	4,397,084	TOTAL EXPENDITURES	400
		RESERVED:	
<u>02 FOOD SERVICE FUND</u>		419 ENCUMBRANCES	
TOTAL REVENUES	2,212,999	UNRESERVED:	
TOTAL EXPENDITURES	2,208,624	422 UNRESERVED/UNDESIGNATED	36,939
RESERVED:			
411 SEVERANCE		<u>09 AGENCY FUND</u>	
419 ENCUMBRANCES		UNRESERVED:	
UNRESERVED:		422 UNRESERVED/UNDESIGNATED	
418 DESIG. SEVERANCE-INS. PREM.			
422 UNRESERVED/UNDESIGNATED	193,298	<u>20 INTERNAL SERVICE FUND</u>	
		TOTAL REVENUES	243,164
		TOTAL EXPENDITURES	229,234
		RESERVED:	
		419 ENCUMBRANCES	
		UNRESERVED:	
		422 UNRESERVED/UNDESIGNATED	81,616

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Federal Grantor\ Pass Through Grantor\ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Expenditures
U.S. Department of Agriculture			
Minnesota Department of Education			
National School Lunch Program:			
Regular Lunch	10.555	1-347-000	\$ 128,967
Free and Reduced Lunch	10.555	1-347-000	590,313
After School Snack	10.558	1-347-000	12,304
Special Milk Program for Children	10.556	1-347-000	313
School Breakfast Program	10.553	1-347-000	378,726
Food Distribution (Commodities)	10.550	1-347-000	111,219
Commodities Rebates	10.558	1-347-000	<u>16,152</u>
Total U.S. Department of Agriculture			1,237,994
U.S. Department of Education			
Direct			
Foreign Language Assistance	84.293B	N/A	88,075
Minnesota Department of Education			
Title I, Grants to Local Education Agencies	84.010	N/A	788,083
Title I, Part C - Education of Migrant Children	84.011	N/A	37,538
Title I, Part C - Education of Migrant Children (Summer)	84.011A	N/A	3,829
Title I, Part D - Neglected and Delinquent Children	84.013	N/A	149,358
Title II, Part A - Improving Teacher Quality	84.367	N/A	225,688
Title V, Part A - Innovative Programs	84.298	N/A	8,747
Title III, Part A - English Language Acquisition	84.365	N/A	64,784
Title IV, Part A - Safe and Drug-Free Schools	84.186	N/A	24,983
Title II, Part D - Enhancing Education Through Technology	84.318	N/A	11,640
Title IV, Part B - 21st Century Community Learning Centers	84.287	N/A	6,635
Federal Adult Basic Education	84.002	N/A	60,499
Little Crow Special Education Cooperative			
Special Education - Grants to States:			
Federal Flow Through, P.L. 108-446	84.027	N/A	404,475
Preschool Incentive Grants	84.173	N/A	30,877
Ridgewater College			
Career and Technical Education	84.048A	N/A	<u>37,529</u>
Total U.S. Department of Education			<u>1,942,740</u>
Total Federal Awards			<u>\$ 3,180,734</u>

Supplementary Information - See accompanying Notes to Schedule of Expenditures of Federal Awards and Auditor's Report

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

NOTE 1. GENERAL

The Schedule of Expenditures of Federal Awards presents the federal award programs expended by Independent School District #347. The District's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's basic financial statements.

NOTE 3. FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 4. SUBRECIPIENTS

During the year ended June 30, 2008, the District did not pass any federal money to subrecipients.

COMPLIANCE SECTION



INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To The Board of Education
Independent School District #347
Willmar, Minnesota

We have audited the financial statements of Independent School District #347, Willmar, Minnesota, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, Independent School District #347, Willmar, Minnesota, complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as Finding 2008-02.

This report is intended solely for the information and use of Independent School District #347 and state agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2008



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Board of Education
Independent School District #347
Willmar, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2007-01, 2007-02, and 2008-01 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-01, 2007-02, and 2008-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Independent School District #347 in a separate letter dated October 27, 2008.

The District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, state agencies, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2008



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Independent School District #347
Willmar, Minnesota

Compliance

We have audited the compliance of Independent School District #347, Willmar, Minnesota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Independent School District #347 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Independent School District #347 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, state and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Conway, Deuth + Schmissing, PLLP

Certified Public Accountants
Willmar, Minnesota

October 27, 2008

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

I. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the basic financial statements of Independent School District #347, Willmar, Minnesota.
2. Significant deficiencies in internal control were disclosed by the audit of financial statements of Independent School District #347 and are reported in the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The significant deficiencies are material weaknesses.
3. No instances of noncompliance material to the financial statements of Independent School District #347, Willmar, Minnesota, were disclosed during the audit.
4. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditor's report on compliance for the major federal award program for Independent School District #347, Willmar, Minnesota, expresses an unqualified opinion.
6. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The following programs were tested as major programs:

<u>Program Name</u>	<u>CFDA No.</u>
Special Education Cluster (IDEA):	
Federal Flow Through P.L. 108-446	84.027
Preschool Incentive Grants	84.173
Title I, Grants to Local Education Agencies	84.010
Title I, Part D - Neglected and Delinquent Children	84.013
Title II, Part A - Improving Teacher Quality	84.367

8. The threshold for distinguishing between Types A and B programs was \$300,000.
9. Independent School District #347, Willmar, Minnesota, was not determined to be a low-risk auditee.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

FINDING: 2007-01 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District's internal control policy over annual financial reporting under GAAP is not sufficient to fully prevent material misstatements in annual financial reporting. Therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Criteria: The District must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Questioned Costs: None

Context: The District has informed us that, due to personnel turnover, they are in a transition period and policies and procedures are in process of being reviewed.

Effect: No effect on the financial statements.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Recommendation: The District should continue to evaluate the duties of their internal staff to determine whether staff is available to fully implement their internal control policy over the annual financial reporting.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Pam Harrington, Director of Business Finance, will use the Governmental Disclosure Checklist. The checklist will be reviewed in April by the Director of Business and Finance and the District Accountant. A plan will be formulated to implement items from the checklist for the 2008-09 Fiscal Year-End Close and Financial Statement Preparation. The plan will be followed during the summer through the issuance of the financial statements.

Official Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance.

Planned Completion Date for CAP:

The process will begin with review and planning starting in April and will conclude with successfully prepared financial statements no later than September 30, 2009.

Plan to Monitor Completion of CAP:

Pam Harrington, Director of Business and Finance, will set meetings for review and report progress to the Superintendent.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (Cont'd)

PREVIOUSLY REPORTED ITEM NOT RESOLVED

FINDING: 2007-02 MATERIAL AUDIT ADJUSTMENTS

Condition: The audit firm proposed and the District posted to its general ledger accounts certain misstatements.

Criteria: The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.

Questioned Costs: None

Context: The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.

Effect: No effect on the financial statements.

Cause: The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).

Recommendation: The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Pam Harrington, Director of Business and Finance, who passed the CPA exam in Illinois in November 1998, will review journal entries throughout the fiscal year. Ms. Harrington will also review the year-end journal entries, as well as, the prior year audit entries. Ms. Harrington will also ensure compliance with the Governmental Disclosure Checklist. Ms. Harrington will provide the auditors with a complete set of financial statements including note disclosures.

Official Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance.

Planned Completion Date for CAP:

Review of journal entries will be ongoing during the fiscal year. Review of the year-end journal entries will take place during the closing of the accounting books.

Plan to Monitor Completion of CAP:

Pam Harrington, Director of Business and Finance, will review and approve all financial statement information.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (Cont'd)

ITEM ARISING THIS YEAR

FINDING: 2008-01 PRIOR PERIOD ADJUSTMENT

Condition: Net assets were restated to reflect an asset not capitalized and to adjust the liability for severance. The District did not have proper controls in place to detect this misstatement.

Criteria: The District must be able to prevent or detect a material misstatement, on a timely basis, in the annual financial statements including note disclosures.

Questioned Costs: None

Context: The asset addition was missed during the preparation of the financial statements for the year ended June 30, 2007. It was determined that the severance portion of certain service agreements previously not recorded as a liability is indeed a liability.

Effect: Net assets were restated.

Cause: The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles.

Recommendation: The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Pam Harrington, Director of Business and Finance, and accounting staff will create written procedures for capitalization and disposal of capital assets. Ms. Harrington will recommend an increase in the capitalization level from \$2,500 to \$5,000. In addition, Ms. Harrington will review capitalized assets for missing disposals or additions. The severance liabilities were adjusted in 2007-08 to reflect all liabilities. Ms. Harrington will annually review employment contracts for changes to the severance language and will adjust the liability as necessary.

Official Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance.

Planned Completion Date for CAP:

The creation of written procedures regarding capitalization and disposal of capital assets will be ongoing throughout 2008-09. The review and adjustment of the severance liability will take place during the year-end close process.

Plan to Monitor Completion of CAP:

Pam Harrington, Director of Business and Finance, will request School Board approval for the change to the capitalization level. Ms. Harrington will also periodically report the progress of the written capitalization procedures to the Superintendent. Ms. Harrington will have adjusted the severance liability prior to completion of the financial statements.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

IV. FINDINGS AND QUESTIONED COSTS - MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

FINDING 2008-02 FOOD SERVICE FUND CAPITAL ASSETS

Condition: The District did not complete an application and receive approval from the Minnesota Department of Education before purchasing capital assets from the Food Service Special Revenue Fund. Minnesota Statute §124D.111, Subd.3.d.2 requires the District to purchase food service equipment from the General Fund unless the unreserved fund balance in the food service fund at the end of the last fiscal year is greater than the cost of the equipment to be purchased and the department has approved the purchase of the equipment.

Recommendation: Management should take steps to ensure that the Statute is followed for future equipment purchases from the Food Service Fund.

PREVIOUSLY REPORTED ITEMS RESOLVED

FINDING: 2007-03 ALTERNATIVE DISSEMINATION OF BIDS

The District had not followed the proper procedures as required by Minnesota Statute 331A, Subd. 3 to designate alternative sources from their official newspaper in which to advertise for their bid requests.

RESOLUTION:

The District chose to advertise in their official newspaper for all requests for bids for the year ended June 30, 2008.

FINDING: 2007-04 COLLATERAL

The District did not have adequate collateral for its deposits as of June 30, 2007 at two separate financial institutions.

RESOLUTION:

The District had sufficient collateral for its deposits as of June 30, 2008.

STUDENT ACTIVITIES



INDEPENDENT AUDITOR'S REPORT ON STUDENT ACTIVITIES

Members of the Board of Education, Advisors, and Students
Independent School District #347
Willmar, Minnesota

We have audited the Statements of Cash Receipts and Disbursements of the Student Activity Funds of Independent School District #347 for the year ended June 30, 2008. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practical for us to extend our audit of such cash collections beyond the amounts recorded.

As described in Note 1 to the Student Activity Funds Financial Statements, the financial statements are prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statements referred to above presents fairly, in all material respects, the cash transactions of the District's Student Activity Funds for the year ended June 30, 2008, and the cash balances at that date.

Conway, Death & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2008

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 ELEMENTARY ACTIVITY FUND
 YEAR ENDED JUNE 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Transfers &</u> <u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2008</u>
Elementary Yearbook	<u>\$ 324</u>	<u>\$ 13,017</u>	<u>\$ 13,101</u>	<u>\$ 240</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 JUNIOR HIGH ACTIVITY FUND
 YEAR ENDED JUNE 30, 2008

	Balance July 1, 2007	Transfers & Receipts	Disbursements	Balance June 30, 2008
Musical	\$ 6	\$ 700	\$ 578	\$ 128
Pop Concert T-Shirts	83	705	705	83
Yearbook	551	8,940	9,082	409
Student Council	954	3,218	3,414	758
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 1,594	\$ 13,563	\$ 13,779	\$ 1,378
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 SENIOR HIGH ACTIVITY FUND
 YEAR ENDED JUNE 30, 2008

	Balance July 1, 2007	Transfers & Receipts	Disbursements	Balance June 30, 2008
Class of 2009	\$	\$ 9,157	\$ 5,383	\$ 3,774
Class of 2008	4,136	2,325	2,177	4,284
Class of 2007	4,955	(4,955)		
Cardettes	3,971	226		4,197
F.F.A.	380	1,378	1,449	309
French Club	771	2,560	3,297	34
Key Club	2,096	2,411	1,673	2,834
National Honor Society	133	1,382	1,155	360
Nordic Ski	609	2,174	2,686	97
Seventh Rendition	14,173	37,508	32,238	19,443
Spanish Club	357	119,568	119,925	
Student Council	991	10,793	10,265	1,519
Usher's Fund	88	234	308	14
"W" Fund	5,492	7,339	5,910	6,921
Wihisean	3,264	9,404	12,155	513
Orchestra	3,261	817	459	3,619
Willmar Athletics	12,431	14,776	18,147	9,060
Final Concessions	2,868	22,792	22,598	3,062
Knowledge Bowl		1,472	659	813
High Mileage	46	1,328	1,349	25
Gymnastics	1,542	678	1,023	1,197
Speech	177	1		178
BPA	654	11,928	5,091	7,491
Cardinals Nest	316	(316)		
Fastpitch Soft Ball	304	765	709	360
	<u>\$ 63,015</u>	<u>\$ 255,745</u>	<u>\$ 248,656</u>	<u>\$ 70,104</u>
Total	<u>\$ 63,015</u>	<u>\$ 255,745</u>	<u>\$ 248,656</u>	<u>\$ 70,104</u>

See accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ALC - SERVICE LEARNING ACTIVITY FUND
YEAR ENDED JUNE 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Transfers &</u> <u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2008</u>
Service Learning	<u>\$ 1,215</u>	<u>\$ 1,233</u>	<u>\$ 1,948</u>	<u>\$ 500</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2. COLLATERAL

Cash balances are held in demand accounts. In accordance with Minnesota Statutes, the Student Activity Funds maintain deposits at those depository banks authorized by the Board of Education.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance.

As of June 30, 2008, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

NOTE 3. PRIOR PERIOD ADJUSTMENT

The beginning cash balance of the Student Activity Funds has been restated to add the ALC - Service Learning Center. The cash balance was increased by \$1,215.



INDEPENDENT AUDITOR'S REPORT ON STUDENT ACTIVITIES COMPLIANCE

Members of the Board of Education, Advisors, and Students
Independent School District #347
Willmar, Minnesota

We have audited the Statements of Cash Receipts and Disbursements of the extracurricular student activity accounts of Independent School District #347 for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting for Minnesota School Districts*, issued by the Minnesota Department of Education.

The *Manual for Activity Fund Accounting for Minnesota School Districts* provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the District's extracurricular Student Activity Fund complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Student Activity Findings as Finding 2008-03 and 2008-04.

This report is intended for the information of the Board of Education, management, and students of Independent School District #347 and the Minnesota Department of Education and is not intended to be, and should not be, used by anyone other than those specified parties.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2008

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF STUDENT ACTIVITIES FINDINGS
YEAR ENDED JUNE 30, 2008

I. FINDINGS RELATED TO STUDENT ACTIVITY COMPLIANCE

- FINDING: 2008-03 *MANUAL FOR ACTIVITY FUND ACCOUNTING FOR MINNESOTA SCHOOL DISTRICTS (MAFA) NONCOMPLIANCE*
- Condition: The District did not have a signed statement of purpose for certain activities within the Student Activity Funds. Furthermore, check requests for various student activity accounts were not signed by the advisor and a student representing the activity.
- Criteria: The District must follow the requirements of MAFA.
- Questioned Costs: None
- Context: The District has informed us that an internal review is in progress of the Student Activity Funds and similar findings have been noted by District staff.
- Effect: No effect on the financial statements.
- Cause: It appears that the District does not have a practice in place to comply with the MAFA.
- Recommendation: The District should make a practice, if not adopt a policy, on internal policies to comply with the MAFA. A part of this practice should be an internal review done on a periodic basis to ensure compliance is monitored and adapted as necessary.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Pam Harrington, Director of Business and Finance, will meet with the clerical staff responsible for overseeing the Student Activity Funds to discuss this finding and implement corrections. Ms. Harrington will direct the staff to follow the requirements of the *Manual for Activity Fund Accounting*.

Official Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance.

Planned Completion Date for CAP:

Pam Harrington, Director of Business and Finance, will meet with the clerical staff responsible for overseeing the Student Activity Funds no later than December 31, 2008 with follow-up meetings as necessary.

Plan to Monitor Completion of CAP:

Pam Harrington, Director of Business and Finance, will periodically review the activities of the Student Activity Funds for compliance with MAFA and implement adjustments to the processes, as necessary.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF STUDENT ACTIVITIES FINDINGS
YEAR ENDED JUNE 30, 2008

I. FINDINGS RELATED TO STUDENT ACTIVITY COMPLIANCE

FINDING: 2008-04 UNRECORDED STUDENT ACTIVITY FUND FOR THE ALC

Condition: The ALC - Service Learning Center was not included as an activity within the Student Activity Funds as previously reported.

Criteria: The District must have controls in place to ensure that all approved activities are included in the financial statements.

Questioned Costs: None

Context: The District has informed us that they will put a process in place to ensure all activities are included and recorded.

Effect: A prior period adjustment of \$1,215 was made to record this activity account.

Cause: It appears that the District does not have internal controls in place to find all unrecorded accounts.

Recommendation: The District should adopt a policy for approval of all student activities.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Pam Harrington, Director of Business and Finance, will send a request to all area banks requesting a list of accounts using the District's tax identification number. Any unknown accounts will be investigated.

Official Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance.

Planned Completion Date for CAP:

Pam Harrington, Director of Business and Finance, will make the request of local banks twice a year.

Plan to Monitor Completion of CAP:

Pam Harrington, Director of Business and Finance, will report results of bank searches to the Superintendent.